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Royal London GMAP Defensive Fund

Quarterly Investment Report

30 September 2023

Quarterly Report

The fund as at 30 September 2023

The purpose of this report is to provide an update on the Royal London GMAP Defensive Fund. The report has been produced by Royal London Asset Management. The report starts with a summary dashboard showing key information about the fund. A glossary is located at the end of the report covering the description of some of the more technical terms used within the report. All data is as at the report date unless otherwise stated.

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The fund

Fund performance objective and benchmark

The fund's investment objective is to achieve capital growth over the course of a market cycle, which should be considered as a period of 6–7 years, by investing at least 80% in other funds, known as collective investment schemes. The fund aims to achieve a relatively low level of risk and return relative to the other funds in the Royal London Global Multi-Asset Portfolio (GMAP) range.

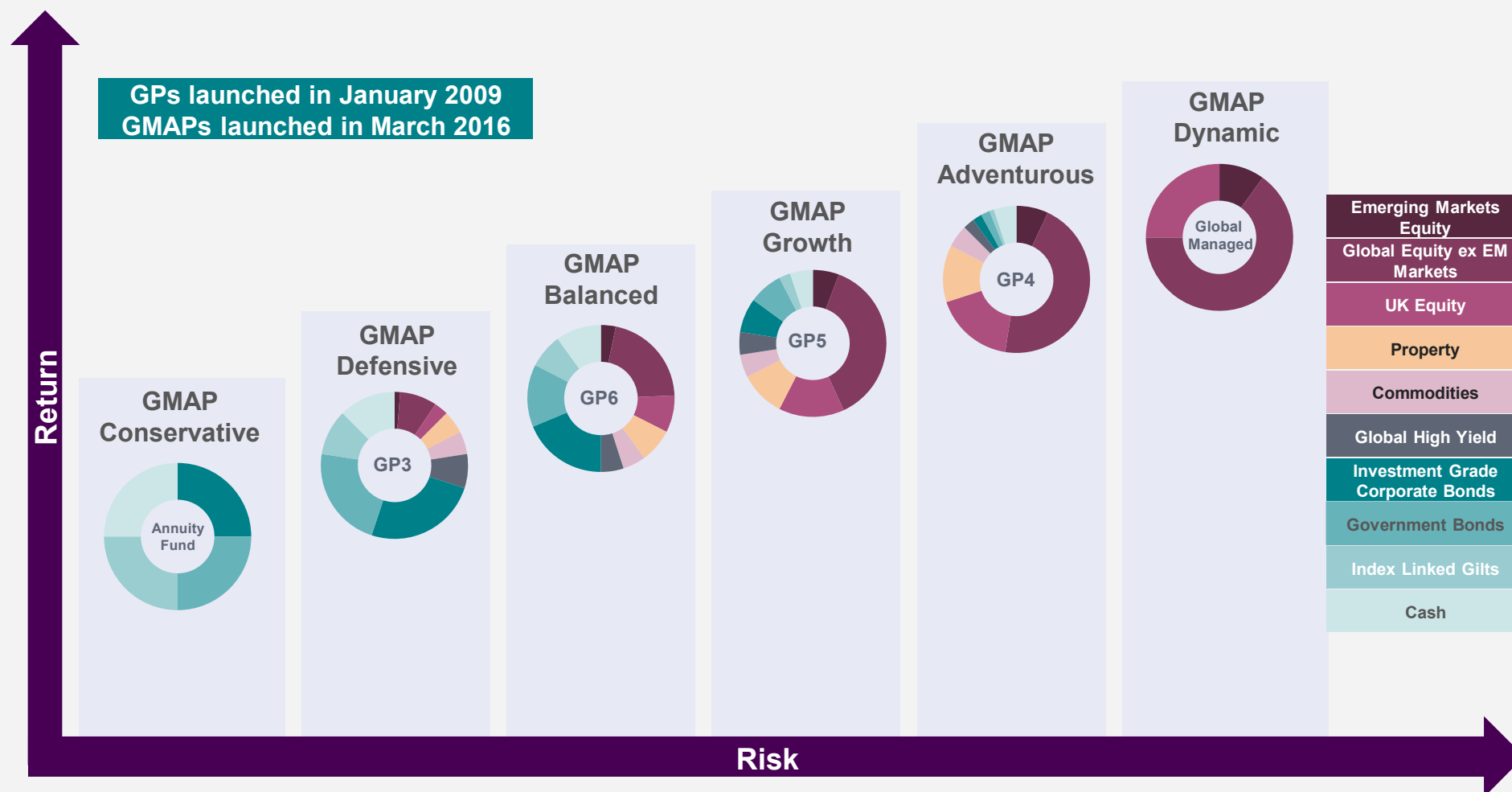
Benchmark: GMAP Defensive Composite Benchmark. The benchmark has been designed with the aim of maximising long run return in excess of inflation for a given level of risk.

FTSE All Share Total Return GBP Index 3.12%
 FTSE World Total Return GBP Index 8.13%
 MSCI Emerging Markets ESG Leaders Net Return Index (expressed in GBP) 1.25%
 Bloomberg Commodity Total Return Index (expressed in GBP) 5.00%
 MSCI/AREF UK All Property Fund Index 5.00%
 FTSE Actuaries UK Conventional Gilts (All Stocks) Total Return GBP Index 9.50%
 FTSE Actuaries UK Conventional Gilts up to 5 Years Total Return GBP Index 10.00%
 Bloomberg UK Government Inflation Linked Bond 1-10 year Total Return GBP Index 2.25%
 Bloomberg World Government Inflation Linked Bond (ex UK) 1-10 year (GBP Hedged) 5.25%
 iBoxx Sterling Non-Gilt Total Return GBP Index 9.00%
 FTSE Actuaries UK Index Linked Gilts (All Stocks) Total Return GBP 2.50%
 ICE Bank of America Merrill Lynch 1–5 Year Sterling Non-Gilt Index 12.50%
 BoAML BB-B Global Non-Financial High Yield Constrained Index (GBP Hedged) 7.50%
 JPM Global ex-UK Traded Index GBP Hedged 3.00%
 Bloomberg Global Aggregate Corporate Total Return Index GBP Hedged 3.50%
 Bank of England Sterling Overnight Index Average (SONIA) 12.50

Fund value

	Total £m
30 September 2023	67.40
Fund launch date	14 March 2016

RL GMAP range



Past performance is not a reliable indicator of future results.

For illustrative purposes – reflects Strategic Asset Allocation weightings, may vary in accordance with tactical asset allocation.

Our fund range is designed to span the risk return spectrum, with each fund aiming to maximise the long-term real return for its given level of risk through a broadly diversified portfolio of investments

Performance and activity

Performance

	Fund (%)	Benchmark (%)	Relative (%)
Quarter	1.44	1.31	0.13
YTD	1.75	1.52	0.23
1 Year	3.32	3.49	(0.17)
3 Years (p.a.)	2.37	1.31	1.06
5 Years (p.a.)	1.78	1.77	0.02
10 Years (p.a.)	-	-	-
Since inception (p.a.)	2.73	2.90	(0.17)

Past performance is not a guide to future performance. Please refer to the Glossary for the basis of calculation and impact of fees. Performance and since inception date based on RL GMAP Defensive Fund (M Acc). Source: Royal London Asset Management; Gross performance; Since inception date of the shareclass is 14 March 2016.

Performance commentary

Equities

Global equities fell from year-to-date highs over the period, driven by fears that monetary policy will remain tighter for longer than previously anticipated, while worries around a potential US government shutdown compounded the sell-off in stocks. Our Investment Clock model stayed in its equity-friendly Recovery quadrant, that it entered earlier this year, with easing inflationary pressures accompanying “less bad” global growth data. We started the quarter overweight equities due to this more positive macro picture, but reduced positions towards neutral into the quarter end as volatility rose and equities lost momentum. Our initial overweight position saw us detract value in equities over the quarter.

Bonds

We were underweight bonds for the entirety of the quarter. We have maintained an underweight position in bonds as interest rates continue to rise which have been positive for our performance as rising yields leads to falling bond prices.

Equity regions

We have been overweight Japanese equities for most of 2023, which have benefitted from a weaker yen, loose monetary policy and improving corporate profits. We continued to prefer Japanese equities over the quarter, and increased our positioning as the quarter progressed, which added value over the period. We further re-established our underweight positions in emerging market and Asia Pacific shares, as economic data in China continued to surprise on the downside. These positions added value over the quarter.

Equity sectors

We maintained a broad preference for growth stocks over the quarter, although we took some profits on this position following strong profits year to date. We increased our underweight position in defensive sectors, which proved beneficial as these sectors continued to lag.

Property

We remain positive on the long-term prospects for property within a diversified multi asset portfolio. However, in the near term, we see downside risks to the asset class as growth slows. We remained tactically underweight property on recessionary concerns. Commercial property was flat over the period. Elevated recession fears and the sluggish UK economy have continued to weigh on property, while hints of a potential BoE pause is seen as a positive signal for the asset class.

Performance and activity

Top 10 holdings

	Weighting (%)
RL Investment Grade Short Dated Credit Fund	12.76
RL Short Duration Gilts Fund	10.23
RL UK Government Bond Fund	9.63
RL Sterling Credit Fund	9.15
RL Global High Yield Bond Fund	7.60
RL Short Duration Global Index Fund	7.59
RL Short Term Money Market Fund	5.96
Government Of United Kingdom 0.125% 31-jan-2024	4.39
RL Property Feeder Fund (PAIF)	4.38
iShares Bloomberg En.Roll Yld Cdy Swap UCITS ETF	4.22
Total	75.91

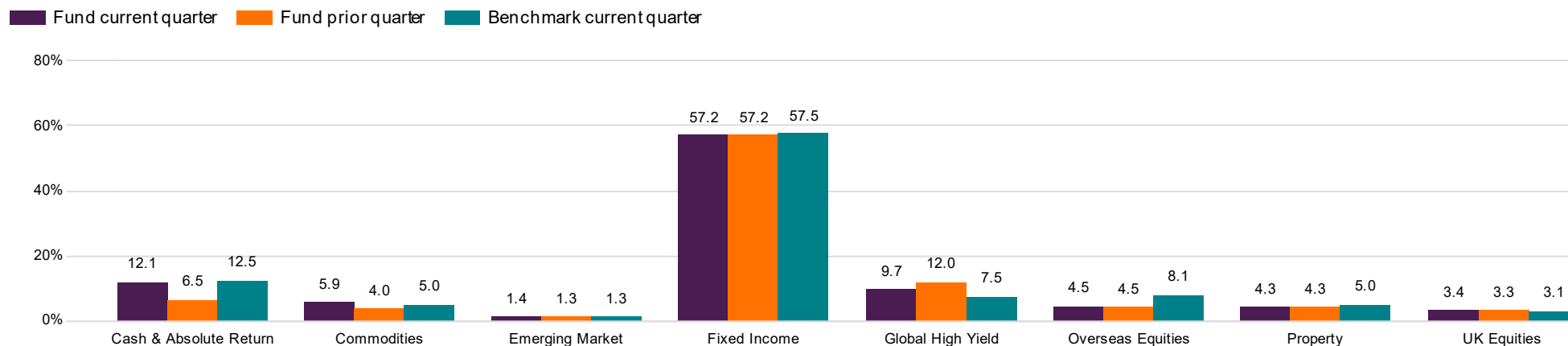
Fund activity

Asset allocation overview

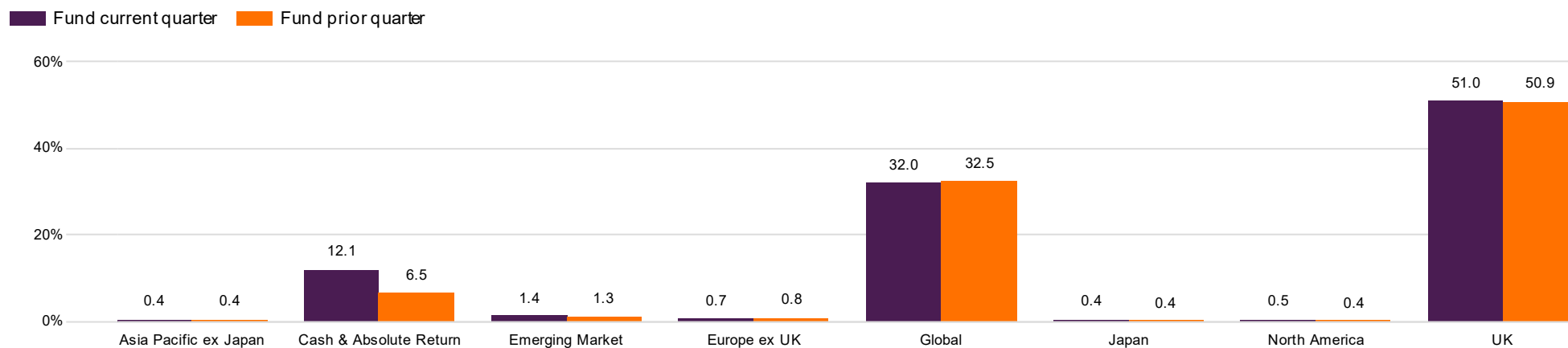
At the tactical asset allocation level, we moved towards a more neutral position in equities over the quarter but maintained our underweight in bonds as markets moved to price in higher interest rates for longer than previously expected. Our overweight position in equities has added value over the year so far but did lead to some losses this quarter. However, these losses were offset as our preference for Japanese stocks continued to add value at the regional equity allocation level, as did our preference away from defensive stocks at the sector level. Despite the current difficult macroeconomic environments, we see great benefits in a well-diversified multi asset approach aiming to deliver positive risk-adjusted returns over the medium to long term.

Fund breakdown

Asset split



Geographical breakdown



Market commentary

Market overview

The third quarter was characterised by mixed data around the world, with central banks coming towards the end of their rate hiking path, but with cuts still seemingly a while away. The global economic picture is rosier now than it was at the start of the year, but global growth is spluttering again amid a disappointing bounce in China activity, slow-to-no growth in Europe and against a backdrop of restrictive monetary policy. The US still looks at risk of recession too, even if activity data to date has been fairly robust.

Inflation has fallen significantly and, although higher energy prices threaten a widespread revival in headline inflation, other factors – including a weak economic activity backdrop – should pull inflation lower still. With taming inflation still the priority for central banks, there is still a possibility of further rate hikes from the Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE), but peak rates look to be near, with real rates now well into positive territory.

The outlook is still lacklustre in the UK. A technical recession is still assumed for the UK in the next 12 months, but a modest one. There are still risks from the housing sector and consumer spending has yet to respond fully to tighter monetary policy. GDP growth has been weak since late 2021 and PMI business surveys point to deterioration, falling into recessionary territory over the summer. Inflation should fall significantly at headline level, but domestically driven inflation continues to look strong, despite higher interest rates. The labour market is starting to look less tight and lead indicators of wage growth suggest some slowing ahead but so far, pay growth remains much too strong to be consistent with hitting a 2% inflation target.

In the US, the real economy has been surprisingly resilient in the face of tighter credit conditions. However, the fourth quarter looks set to see a few growth challenges, monetary policy is restrictive and employment growth has slowed. A number of recession indicators are still flashing. Business survey data paints a mixed picture, with PMIs consistent with flattish growth while ISM surveys look more upbeat. Employment gains have slowed on the non-farm payrolls data and job openings have fallen a long way from their highs consistent with a less tight labour market. Housing-related activity remain subdued.

The euro area economy may already be in mild recession and forecasts continue to pencil one in. Business surveys have deteriorated and look consistent with falling private sector output. Tighter monetary policy will still be feeding through to the real economy. Bank lending conditions have tightened and loan growth has slowed. High domestically driven inflation continues to point to the balance of risks being in the direction of further hikes.

The sterling investment grade credit market (Non-gilt) returned 2.26% over the quarter, as the negative impact of higher government bond yields was offset by tighter credit spreads and the greater proportion of short-dated bonds (which performed well relatively to longer-dated equivalents) in credit indices.

Equity markets made losses over the period under review on fears that policy will remain tighter for longer than expected, which saw equities drop to their lowest levels since early June. Growth sectors have outperformed year to date but struggled against the backdrop of rising rates. The technology sector has fallen for three consecutive weeks during September. Japanese equities remain attractive relative to the emerging markets.

For the third quarter, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced negative returns for the quarter in US dollar terms. Looking at national MSCI indices, the strongest market was Japan, while the weakest was Eastern Europe. In terms of style, the MSCI World Growth Index produced weaker returns versus the MSCI World Value Index.

The price of Brent crude oil soared by 27.3% to \$95.3 a barrel. Copper futures also declined a further 1.2% in dollar terms on the back of warning signs emerging of a weakening in global demand as China's economic rebound stalls.

The US dollar appreciated by 3.5% against the yen, by 3.2% against the euro, and by 4.1% against sterling. On a translational basis, sterling's strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit any emerging markets countries and companies that have borrowed in dollars.

Outlook

While we expect headline inflation to continue to fall, we are not expecting a return to the previous disinflationary world. We see a more normal new regime characterised by periodic spikes in inflation and short boom-bust cycles. Tactical asset allocation is important when business cycles are shorter given inflation causing more movement in interest rates. We have been overweight equities in the multi asset funds we manage since the Autumn 2022. While we have moved to more neutral positioning recently, we could look to buy dips should investor sentiment deteriorate further into depressive territory.

Further Information

Please click on the links below for further information:



Find out more

Articles, videos and webinars explaining our investment thinking can be found in the Our Views section of www.rlam.com, including regular updates from our Fixed Income, Global Equity, Sustainable and Multi Asset teams. Notable publications in the third quarter include our annual Climate Report, as well as our annual Assessment of Value reports, available from the home page of www.rlam.com.

Disclaimers

Important information

For professional clients only, not suitable for retail clients.

The portfolio has no index as a comparison.

This is a financial promotion and is not investment advice.

Telephone calls may be recorded. For further information please see the Privacy Policy at www.rlam.com.

Issued in October 2023 by Royal London Asset Management Limited, 80 Fenchurch Street, London EC3M 4BY. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

The Fund is a sub-fund of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058.

The Company is a non-UCITS retail scheme. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037.

For more information on the fund or the risks of investing, please refer to the Prospectus or Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on www.rlam.com.

Risks and Warnings

Investment Risk

The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit Risk

Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative Risk

This fund may undertake transactions in derivatives and forward transactions (both on exchange and over the counter (OTC)). These may include interest rate swaps and interest rate futures for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging. While the discerning use of derivatives can be beneficial, derivatives also involve specific risks. These risks relate specifically to market risk, management risk, credit risk, liquidity risk, the risk of mispricing or improper valuation of derivatives and the risk that derivatives may not correlate perfectly with underlying assets, interest rates and indices. The use of derivative instruments may from time to time alter the economic exposure of the fund causing it to deviate significantly from the performance of the market as a whole. The use of these derivatives will be within the parameters allowed for linked funds by the Financial Conduct Authority and Prudential Regulation Authority.

EPM Techniques

The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk

Changes in currency exchange rates may affect the value of your investment.

Interest Rate Risk

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital. Unlike the income from a single fixed interest security, the level of income (yield) from a fund is not fixed and may go up and down. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background.

Liquidity Risk

In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk

Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Fund investing in Funds Risk

The Fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the Fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the Fund itself, may be deferred or suspended.

Liquidity and Dealing Risk

The Fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the Fund, or receive less than may otherwise be expected when selling your investment.

Performance to 30 September 2023

Cumulative (%)

	3 Month	6 Month	1 Year	3 Years	5 Years		
Fund (gross)	1.44	0.99	3.32	7.28	9.25	3 Years (p.a.)	5 Years (p.a.)
Fund (net)	1.29	0.68	2.71	5.37	6.13	2.37	1.78
						1.76	1.20

Annualised (%)

Year on year performance (%)

	30/09/2022 - 30/09/2023	30/09/2021 - 30/09/2022	30/09/2020 - 30/09/2021	30/09/2019 - 30/09/2020	30/09/2018 - 30/09/2019
Fund (gross)	3.32	(5.35)	9.70	(2.54)	4.49
Fund (net)	2.71	(5.91)	9.04	(3.12)	3.97

Past performance is not a guide to future performance. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment.

Source: RLAM as at 30 September 2023. All figures are mid-price to mid-price in GBP for the RL GMAP Defensive Fund (M Acc).

Glossary

Asset allocation

Based on RLAM's holistic approach to fixed income management and fund weights relative to their respective benchmarks. May not reflect tactical exposures.

Fund value

Total value of the fund as of the last business day of the calendar month. The fund value is as at close of business and on a mid-price basis.

Geographical breakdown

Breakdown of assets by geographical regions. 'Global' region includes global fixed income and overseas securities exposures, which are sterling hedged and commodity exposures.

Performance

Performance is calculated using the signed off NAV per share. The impact of fees or other charges including tax, where applicable, can be material on the performance of your investment. The impact of fees reduces the return.

Top 10 holdings

Top 10 assets held by market value, excluding derivatives and cash.